

Fed will begin tapering (slowly), robust US economy and earnings growth

US stocks climbed steadily to new highs, leading Developed Market equities to 1.81% gains for another week of outperformances vs flattish Emerging Markets, which were dragged by weak Asian markets. Driving investor optimism are Fed meeting outcome, robust US economic data, and upbeat Q3 earnings results. On Wednesday, Fed stated it will begin later this month to lower monthly bond purchases by US\$15bn a month until December, but it is prepared to adjust the pace of purchases according to changes in economic outlook. With no mention of the speed of taper beyond December, Fed is viewed as dovish, thus lowering market's rate hike expectations in 2022 and 10-yr UST yields to 1.46% (-10bps). US economic data were also better than expected, particularly October labor data which showed strong ADP (Private Sector) jobs growth of 571K (vs. 400K consensus), declining jobless claims, strong non farm payrolls growth of 531K (cons: 450K), and declining US unemployment rate to 4.6% (cons: 4.7%). ISM manufacturing & services PMI data and US factory orders were also better than expected. Meanwhile, US earnings season is almost over and with 81% earnings beats rate, the earnings growth rate for S&P500 has been revised further up to 41.5% for Q3, from 39.2% YoY in previous week, according to Refinitiv. Globally, small caps, growth stocks outperformed large caps and value stocks this week.

In Indonesia, JCI was flattish (-0.15%) this week as foreign equity inflows slowed in the past two weeks, while the bond market continued to suffer large foreign outflows (Rp14.8Tn), ahead of Fed meeting and taper announcement this week. Large cap stocks in financials, auto, telecom, energy, and consumer sectors saw share price declines this week, while gainers were limited to cement, materials, retailing, healthcare and property stocks. Indonesia's Q3 GDP growth rate of 3.51% YoY, that was released on Friday, came below consensus expectation of 3.76% growth, and thus has not helped improve sentiment on the market.

The Week Ahead – Fed Chair Powell Speech, US PPI & CPI Inflation Rates

The key economic data events and releases to focus next week are Fed Chair Powell Speech (Mon 22:30), Indonesia Consumer Confidence (Tue 10:00), US Producer Price Index (Tue 20:30), US Inflation Rate and Initial Jobless Claims (Wed 20:30), EU Industrial Production (Fri 17:00), and US Michigan Consumer Sentiment survey (Fri 22:00).

Investment Conclusion

Global equities have priced-in strong growth recovery in 2021 but the key issue for markets this year has shifted to inflation, as reflected in rising bond yields, as this could lead to monetary policy tightening in the advanced economies. An unexpected shift in Fed's monetary policy (eg. taper, rate hike) could unsettle global markets and lead to fund outflows from EMs. However, we view the risks to Indonesia are lower now than in 2013 as a Fed tapering is already expected, Indonesia country risk indicators have improved, and its bond market is now more resilient. Our 2021 JCI target of 6,600 is nearly achieved but we believe there is still scope for further upside (our 2022 JCI target is 7,400) given lagging performances of EM (including Indonesia) in comparison to DM equities.

Recommendation

We have recommended investors to stay defensive since before the pandemic, with our broad-based ETFs RLQ45, XIIT (IDX30), XIPI (Pefindo i-Grade), and ESG ETF XISR (Sri Kehati) to minimize volatility. Both XIPI and XISR have overweight positions in BBCA, widely considered as defensive stock at times of uncertainty. XIPI also has an overweight position in cyclical stocks, including in banking and basic materials sectors, and underweight of defensive stocks in the portfolio. As such, XIPI is exposed to sectors that should benefit the most from an economic recovery while still maintaining defensiveness through its overweight exposure in BBCA. We also like ETF XIML (MSCI Indonesia Large Cap) for its constituent of mainly blue-chip stocks, which should benefit the most from foreign equity inflows, as seen during the past 3 months.

Meanwhile, we view our narrow-based (thematic) ETFs such as XIIC (Consumer), XIIF (Rate Sensitive), XISI (Infrastructure), and XISC (State-Owned Companies) as better suited for trading or satellite investments given their more cyclical stock performances and importance of entry and exit timings for fund performances. Our ETF Fund Guide is on page 2.

Global Stock Indices	Last	1W	YTD
DJIA	36,327.95	1.42%	18.69%
S&P 500	4,697.53	2.00%	25.07%
Nasdaq	15,971.59	3.05%	23.92%
FTSE 100	7,303.96	0.92%	13.06%
DAX	16,054.36	2.33%	17.02%
Nikkei 225	29,611.57	2.49%	7.90%
Hang Seng	24,870.51	-2.00%	-8.67%
Shanghai	3,491.57	-1.57%	0.53%
MSCI World	3,232.26	1.81%	20.16%
MSCI Emerging Markets	1,264.07	-0.05%	-2.11%

JCI Sector Indices	Last	1W	YTD
Transportation	1,258.04	3.97%	31.98%
Consumer Cyclical	860.74	1.02%	15.86%
Basic Materials	1,206.71	1.01%	-2.12%
Healthcare	1,415.45	0.82%	8.02%
Property & Real Estate	867.70	0.20%	-9.21%
Consumer Non-Cyclicals	689.84	-0.02%	-12.79%
JCI	6,581.79	-0.15%	10.08%
Financials	1,534.19	-0.24%	21.72%
Energy	996.19	-0.42%	27.26%
Infrastructures	982.45	-0.42%	13.92%
Technology	9,357.60	-0.50%	740.17%
Industrials	1,059.82	-1.96%	14.09%

Rates and Bonds	Last	1W	YTD
UST 2Y Yield	0.41	-9 bps	28 bps
UST 10Y Yield	1.46	-10 bps	54 bps
Ind GB 10Y Yield	6.06	2 bps	17 bps
USDIDR	14,331	163	281
CDS Indo 5Y	80.63	-2.56	13.12

Foreign Fund Flows	1W	YTD
Equity Regular Market (Rp)	+608.01Bn	+41.37Tn
Government Bond Market (Rp)	-14.86Tn	-39.57Tn

Commodities	Last	1W	YTD
WTI	81.27	-2.75%	67.50%
Brent	82.74	-1.94%	59.73%
CPO (Malaysia)	4,912.00	-2.27%	71.81%
Coal (New Castle)	154.25	-30.97%	91.61%

Funds and ETFs	Last	1W	YTD	
<i>ETF</i>	<i>Theme</i>			
RLQ45	LQ45	1,015.09	-0.46%	4.15%
XIIT	IDX30	536.38	-0.54%	3.46%
XIJI	JII	592.66	-0.41%	-7.37%
XISI	SMInfra18	340.03	-0.14%	2.42%
XISR	SriKehati	387.45	-0.47%	2.15%
XIHD	IDXHIDIV20	493.03	-0.43%	7.32%
XIPI	Pefindo I-Grade	181.11	-0.45%	5.01%
XIML	MSCI Indo Large Cap	260.44	-0.76%	2.60%
XIID	IDX30	518.24	-0.57%	2.91%
XIFE	FTSE ESG Indonesia	104.35	-0.38%	-
XIIC	Consumer Related	988.13	-0.26%	-4.47%
XIIF	Rate Sensitive	557.54	-0.11%	-5.28%
XISC	BUMN Stocks	729.80	0.17%	-4.40%
XISB	Sovereign Bonds	450.45	0.21%	0.97%

Conventional				
RDMP	Equity	905.59	-0.75%	-14.34%
RPCF	Balanced	2,696.46	-0.67%	-9.68%
RDPU 2	Money Market	1,329.57	0.06%	3.50%

Summary of Investment Characteristics & Valuation of ETF Funds Portfolios

Name of ETF Funds	Fund Characteristics (% of Portfolio)					P/E (x)	Dividend Yield	Beta to JCI
	Defensive	Rate-Sensitive	Dom. Cyclical	Commodities	Cash	2021F	2021F	
1 RLQ45	25.9	50.4	13.8	9.5	0.30	17.8	3.7	1.17
2 XIIT	28.8	53.0	8.0	9.9	0.32	17.8	3.9	1.16
3 XISC	18.7	43.2	17.7	16.3	4.12	17.2	2.9	1.36
4 XISR	25.1	66.4	3.5	4.8	0.20	18.4	4.3	1.13
5 XIIF	12.1	53.0	32.9	0.0	2.01	22.0	3.8	1.27
6 XISI	51.3	16.6	20.2	11.4	0.43	17.2	3.0	1.21
7 XIPI	20.4	62.0	13.7	3.7	0.27	21.1	3.8	1.18
8 XIIC	32.3	41.7	20.6	3.6	1.89	21.8	3.6	1.03
9 XIHD	28.5	54.2	4.2	12.5	0.64	17.3	4.4	1.14
10 XIJI	45.9	3.4	30.9	19.4	0.33	17.9	2.3	1.07
11 XIIML	18.1	75.6	3.4	2.8	0.06	18.6	4.6	1.15
12 XIID	28.8	53.0	8.0	9.9	0.29	17.8	3.9	1.16
13 XIFE	30.6	57.3	5.7	6.3	0.21	17.2	4.0	1.09
Index								
IDX80	32.2	36.3	19.5	12.0		16.9	2.6	
JCI	30.1	42.5	17.4	9.9		18.9	2.3	

Remarks:

*Red: Overweight to IDX80; Black: Neutral to IDX80; Green: Underweight to IDX80

Characteristic Classification :

*Defensive : Consumer Goods, Media, Telecommunication, and Infrastructure
 *Rate Sensitive : Banks and Auto
 *Dom. Cyclical : Cement, Property, Construction, Animal Feeds, and Retail Trade
 *Commodities : Coal Mining, Metals & Oil Mining, Plantation and Misc. Industries

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